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Research Update:

Italian Mediobanca 'BBB/A-2' Ratings Affirmed Despite Increased Economic And Industry Risks In Italy; Outlook Negative

Analytical Group Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

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Overview

- In our opinion, Mediobanca's financial profile is exposed to the heightened economic and industry risks we now see for banks operating in Italy.
- Nevertheless, we believe that Mediobanca's business and financial profiles remain consistent with our current ratings, even after we take into account the negative impact of these risks.
- We are therefore affirming our 'BBB/A-2' long- and short-term counterparty credit ratings on Mediobanca and removing them from CreditWatch where they were placed with negative implications on July 12, 2013.
- The negative outlook reflects the possibility that we could lower the ratings on Mediobanca if we lowered the long-term rating on Italy, or if we anticipated that the economic and operating conditions in which Italian banks operate would deteriorate further or we expected a weakening of Mediobanca's capital position.

Rating Action

On July 24, 2013, Standard & Poor's Ratings Services affirmed its 'BBB/A-2' long- and short-term counterparty credit ratings on Italy-based Mediobanca SpA (Mediobanca). At the same time, we removed the ratings from CreditWatch, where they were placed with negative implications on July 12, 2013. The outlook is negative.

Rationale

The affirmation reflects our opinion that Mediobanca's business and financial profiles remain consistent with our current ratings, even after we take into account the negative impact of the heightened economic and industry risks we see in Italy.

Because of the increased economic risks we see for Italian banks, we believe the Italian banking sector is now more exposed to a deeper and longer recession than we had previously anticipated. In addition, we believe that Italian banks face increased industry risks as a result of a higher cost of funding than most other banking markets in the European Economic and Monetary Union (EMU or eurozone), which could limit Italian banks' access to capital

market financing.

As a result of these factors, we have revised down our anchor--the starting point for assigning a bank a long-term rating--for banks operating predominantly in Italy (including Mediobanca) to 'bbb-' from 'bbb'. We have therefore revised down our assessment of Mediobanca's stand-alone credit profile (SACP) to 'bbb' from 'bbb+'. However, because our long-term rating on Mediobanca was already at the level of the 'BBB' sovereign credit rating on Italy, the lower SACP on Mediobanca has not led to a lowering of our long-term rating.

Our assessment of Mediobanca's business profile, risk position, and funding and liquidity position remains unchanged.

The heightened economic risk we now see in Italy has, in our view, had a moderate negative impact on Mediobanca's capital position due to its geographic and business diversification. Our risk-adjusted capital (RAC) ratio for Mediobanca is now 6.4% as of end-2012; this is about 50 basis points (bps) lower than the RAC ratio as of end-2012 before we reviewed economic risk in Italy. However, our assessment of Mediobanca's "adequate" capital and earnings remains unchanged. This reflects our expectation that actions that Mediobanca recently announced in its business plan will likely enable it to reach a RAC ratio of about 8% in the next 18-24 months. In particular, we expect Mediobanca's capitalization to benefit from a significant reduction in its equity stakes portfolio, through announced disposals and about €400 million of equity write-downs. Furthermore, we expect Mediobanca to return to moderate profitability and continue to retain earnings in 2014 and 2015.

Outlook

The negative outlook on Mediobanca reflects the possibility that, all else being equal, we could lower the ratings if we anticipate that one of the following conditions will occur:

- We lower the long-term sovereign credit rating on Italy;
- The economic and operating conditions in which Italian banks operate deteriorate further;
- The operating conditions in which Italian banks operate deteriorate further, or the economic conditions deteriorate further and Mediobanca's capital position weakens--either because of higher economic risk or due to a delay in the planned disposals of equity stakes and/or higher-than-expected pressure on Mediobanca's profitability; or
- The delay in the planned disposals of equity stakes and/or higher-than-expected pressures on Mediobanca's profitability weaken its capital position so that our projected RAC ratio is unlikely to remain sustainably above 7%, even if the economic and operating environment does not become tougher.

We do not currently expect to revise the outlook on Mediobanca to stable. However, we could do so if we also revised that on the long-term sovereign

credit rating on Italy to stable and if we anticipated that downside risks to the economic and operating environment in Italy, and to our assessment of Mediobanca's capital, were likely to abate.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB/Negative/A-2	BBB/Watch Neg/A-2
SACP	bbb	bbb+
Anchor	bbb-	bbb
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Adequate (0)	Adequate (0)
Risk Position	Strong (+1)	Strong (+1)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria And Research

- Group Rating Methodology, May 7, 2013
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology and Assumptions, June 14, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action	To	From
Mediobanca SpA		
Counterparty Credit Rating	BBB/Negative/A-2	BBB/Watch Neg/A-2
Certificate Of Deposit	BBB/A-2	BBB/Watch Neg/A-2
Mediobanca SpA		
Senior Unsecured	BBB	BBB/Watch Neg

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Subordinated	BBB-	BBB-/Watch Neg
Mediobanca International (Luxembourg) S.A.		
Senior Unsecured*	BBB	BBB/Watch Neg
Certificate Of Deposit*	A-2	A-2/Watch Neg
Commercial Paper*	A-2	A-2/Watch Neg
*Guaranteed by Mediobanca SpA.		

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